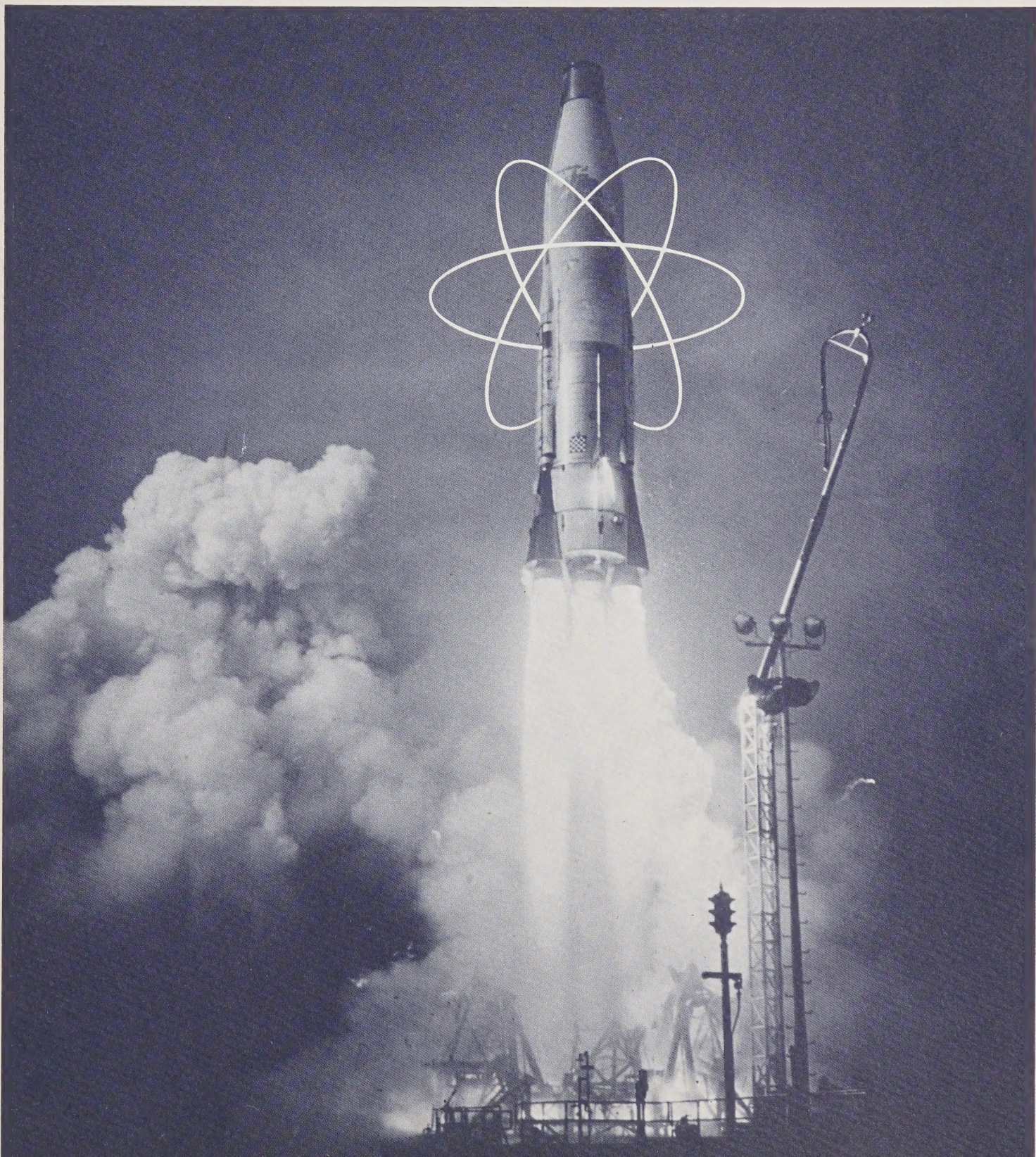


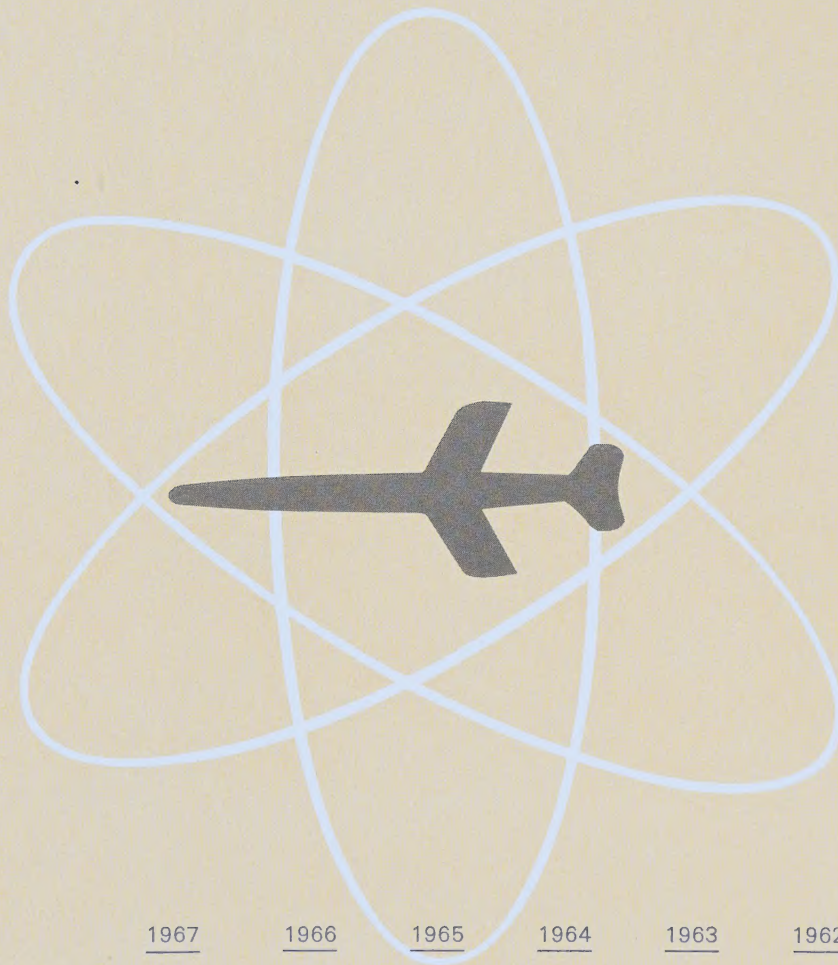
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The Annual General Meeting of the Common Shareholders will be held in Salon A of the Lord Simcoe Hotel, King Street West and University Avenue, in the City of Toronto, on the 7th day of December, 1967, at the hour of 10 o'clock in the forenoon.



HIGHLIGHTS	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>
Net earnings per common share (before preference dividends)	\$1.73	87.0¢	28.6¢	35.2¢	34.6¢	30.9¢
Net earnings per common share (after preference dividends)	\$1.69	83.0¢	24.2¢	30.6¢	30.0¢	27.6¢
Equity per common share	\$4.26	\$3.59	\$2.94	\$2.86	\$2.74	\$2.57
Working capital	\$1,003,013	\$663,703	\$540,273	\$609,744	\$364,522	\$442,755



president's letter

to the shareholders of magna electronics corporation limited

On behalf of the Board of Directors, I again take pleasure in presenting your Company's annual report for the year ended August 31, 1967. Since the last annual report your company has, as predicted, experienced an excellent year. We are now well established in our new plant in Scarborough and I believe the company is reaching for new horizons. Your company has expanded through development of an American sales staff which has made active contact with several large American companies in the space and electronics field. This has already resulted in two new orders for missile components which are of a greater duration and in larger quantities than your company has experienced before. The foregoing together with the large current backlog of orders offers an exciting future. I draw your attention to the list on page seven of this report which discloses our old and new customers.

Your Company has entered into negotiations with its financial agents, Cochrane, Murray & Co. Limited, to arrange financing of two million dollars of convertible debentures and a prospectus has been submitted to the various

regulatory bodies. I will be reporting to you on this matter at the Shareholders' meeting. It is the opinion of management that these funds may be used advantageously by the company in the expansion of its business. During the past year extensive purchases of machinery and equipment have been greatly responsible for our progress. This program will be continued in order to increase capacity, to satisfy customers' delivery schedules, and to continue efforts for better production. Our program of recruiting skilled labour here and in Europe continues unabated but is still at present one of the limiting factors in our expansion program. On behalf of the Board of Directors, I wish to express our appreciation of your continued support. Needless to say this year's progress is most gratifying and truly reflects the full effort that your management and staff have put forth. The fiscal year ended August 31, 1967, did more than fulfill our most optimistic predictions and 1968 is already showing the same tendencies. We are looking forward to another record year for Magna Electronics.

Submitted on behalf of the Board of Directors

J. H. Wainwright
President

NOVEMBER 1967



ASSETS

	1967 \$	1966 \$
CURRENT ASSETS		
Cash	360,999	36,448
Accounts receivable	712,179	696,761
Inventories of raw materials and work in progress at the lower of factory cost or net realizable value	463,102	304,419
Prepaid expenses and sundry assets	28,559	17,166
TOTAL CURRENT ASSETS	<u>1,564,839</u>	<u>1,054,794</u>
 MORTGAGE LOAN		
7½%, due 1987	<u>134,500</u>	<u>—</u>
 FIXED ASSETS (note 1)		
Land	20,876	47,176
Buildings and improvements	285,580	441,740
Machinery and equipment	1,446,984	1,483,720
	<u>1,753,440</u>	<u>1,972,636</u>
Less: Accumulated depreciation	719,024	815,791
	<u>1,034,416</u>	<u>1,156,845</u>
 OTHER ASSETS		
Research, development and engineering — at cost less adjust- ments (note 1)	—	80,000
Goodwill — at cost	137,161	137,161
Unamortized debt financing expense	21,095	26,334
	<u>158,256</u>	<u>243,495</u>
 TOTAL ASSETS	<u><u>2,892,011</u></u>	<u><u>2,455,134</u></u>

Signed on behalf of the Board:
J. E. Warrington, Director
H. Warrington, Director

balance sheet

as at August 31, 1967 (with comparative figures for 1966)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1967 \$	1966 \$
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	281,074	245,582
Income taxes payable (note 2)	245,457	120,509
Current proportion of long-term debt	35,295	25,000
TOTAL CURRENT LIABILITIES	<u>561,826</u>	<u>391,091</u>
 LONG-TERM DEBT		
6¾% First mortgage sinking fund bonds (note 3)	425,000	450,000
6½% Floating charge debentures (note 4)	150,000	150,000
Capital assistance (note 5)	79,925	—
	<u>654,925</u>	<u>600,000</u>
Less: Current portion	35,295	25,000
	<u>619,630</u>	<u>575,000</u>
 SHAREHOLDERS' EQUITY		
<i>Capital Stock</i>		
<i>Authorized —</i>		
9,689 6½% cumulative, sinking fund preference shares with a par value of \$100 each, redeemable at \$105 (note 6)		
1,000,000 common shares without par value		
<i>Issued and fully paid —</i>		
2,189 preference shares (note 6)	218,900	233,600
350,000 common shares (note 7)	317,505	317,505
<i>Contributed Surplus</i> (note 8)	6,532	1,328
<i>Excess of appraised value of assets over cost less adjustments</i> (note 1)	—	321,316
<i>Retained earnings</i>	1,167,618	615,294
	<u>1,710,555</u>	<u>1,489,043</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>2,892,011</u>	<u>2,455,134</u>

To the Shareholders:

We have examined the balance sheet of Magna Electronics Corporation Limited as at August 31, 1967 and the statements of earnings and retained earnings and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of earnings and retained earnings and source and application of funds, when read in conjunction with the notes thereto, present fairly the financial position of the company as at August 31, 1967 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in the basis of valuation of fixed assets and deferred charges referred to in Note 1, with which we concur.

McDonald, Currie & Co./Chartered Accountants/Toronto, Ontario, October 23, 1967



notes to the financial statements

for the year ended August 31, 1967

1: Change in basis of valuation

Effective September 1, 1966, the company changed the basis of valuation of fixed assets and certain deferred charges by eliminating the excess of \$321,316 of their appraised value over cost. Accordingly, fixed assets are now valued at cost less accumulated depreciation thereon and deferred research, development and engineering expenses have been eliminated. This change has no effect on current or prior years' earnings because no depreciation or amortization on the excess of the appraised value over cost was charged to earnings.

2: Income taxes

Income taxes in respect of the year have been reduced by claiming depreciation for tax purposes in excess of that recorded in the accounts. This reduction, amounting to \$67,700 for the year, is applicable to those future periods in which the amounts claimed for tax purposes will be less than the depreciation recorded in the accounts. The accumulated tax saving to date amounts to \$204,100.

If the company followed the deferred tax accounting concept, the income tax provision and net earnings for the years ending August 31, 1966 and 1967 would have been stated as follows:

Year	Provision for income taxes \$	Net earnings for the year \$
1967	567,700	539,110
1966	251,567	244,216

3: 6¾% first mortgage sinking fund bonds

The first mortgage sinking fund bonds are repayable in annual sinking fund instalments of \$25,000 on September 15 of each year up to September 15, 1983, the date of maturity. In accordance with the trust indenture for these bonds, no dividends are to be paid on the common shares of the company or preference shares redeemed, other than from the sinking fund, unless immediately after giving effect to such payment:

- (a) The working capital of the company is in excess of \$400,000.
- (b) The retained earnings of the company are in excess of \$500,000.

4: 6½% floating charge debentures

The floating charge debentures are repayable commencing September 15, 1968 to September 15, 1973 at the rate of \$25,000 annually. Principal and interest repayments are subject to the following restrictions:

- (a) The working capital of the company must be in excess of \$400,000.
- (b) The retained earnings of the company must be in excess of \$150,000.

5: Capital assistance

During the year, the company received or claimed capital assistance grants from the Government of Canada in the amount of \$159,850 to purchase equipment for use in defence contracts. The terms of the capital assistance agreements require repayment of fifty per cent of the grant, without interest, at the rate of ten per cent annually in each of the following five years.

6: Purchase of preference shares

During the year the company purchased for cancellation 147 preference shares for \$14,096.

7: Stock options

The company proposes to establish an incentive Stock Option Plan authorizing its directors to grant to officers and other full time employees options to purchase up to a total of 20,000 common shares at varying prices.

8: Contributed surplus

Changes in contributed surplus are as follows:

	\$
Balance — August 31, 1966	1,328
Gain on purchase for cancellation of preference shares	604
Re-allocation from retained earnings of gain on cancellation of 100,000 share purchase warrants in 1963	4,600
Balance — August 31, 1967	<u>6,532</u>

9: Consolidation

During 1966, the entire operations of wholly-owned subsidiaries were phased into the existing divisions of the company. The excess of the net cost of the investment in the subsidiaries over book values at dates of acquisition of \$16,257 was charged to surplus.

10: Government contracts

A portion of the company's sales made in connection with Canadian Government contracts are subject to adjustment on government audit. The management is of the opinion that full provision has been made for any adjustment that may arise in final determination of contract prices.

11: Lease commitments

Total rentals paid for the year ended August 31, 1967 and minimum future commitments (excluding tax and like expenses) under leases of a duration of more than five years are:

	\$
Year ended August 31, 1967	43,320
Five years, 1968-1972	198,200
Five years, 1973-1977	170,064
1978	14,652

12: Non-disclosure of sales

Pursuant to an Order of the Supreme Court of Ontario made in October 1967, the company was exempted from disclosing sales as required by The Corporations Act for a period of eighteen months.

The percentage increase in sales in 1967 over 1966 was 36.4%.

13: Proposed issue of debentures

The company has signed a letter of intent with its underwriters regarding a proposed issue of \$2,000,000 20 year subordinated convertible debentures. The company plans to apply the proceeds of the issue to retire existing long-term debt; to purchase and expand plant and equipment; and to increase working capital.

statement of earnings and retained earnings

for the year ended August 31, 1967 (with comparative figures for 1966)

	1967 \$	1966 \$
Earnings before deducting the following items (note 12) . . .	1,434,811	776,357
Depreciation	161,953	155,589
Cost of long-term debt	43,078	44,765
Remuneration of directors and senior officers	83,836	80,220
	<u>288,867</u>	<u>280,574</u>
	1,145,944	495,783
Non-recurring items		
Moving expenses	54,375	—
Gain on disposal of fixed assets	(15,241)	—
	<u>39,134</u>	<u>—</u>
	1,106,810	495,783
Provision for income taxes (note 2)	500,000	191,167
Net earnings for the year (note 2)	606,810	304,616
Retained earnings at the beginning of the year	615,294	342,205
	<u>1,222,104</u>	<u>646,821</u>
Less:		
Dividends —		
Preference shares	14,884	15,270
Common shares	35,002	—
Net excess of cost of investment in wholly owned subsidiaries over book values at dates acquisition (note 9)	—	16,257
Re-allocation to contributed surplus (note 8)	4,600	—
	<u>54,486</u>	<u>31,527</u>
Retained earnings at end of the year	<u>1,167,618</u>	<u>615,294</u>

statement of source and application of funds

for the year ended August 31, 1967 (with comparative figures for 1966)

	1967 \$	1966 \$
SOURCE OF FUNDS		
Net earnings for the year	606,810	304,616
Non-cash items included in earnings		
Provision for depreciation	161,953	155,589
Amortization of organization and issue expense	5,239	13,091
Gain on disposal of real property	(15,241)	—
	<u>758,761</u>	<u>473,296</u>
Proceeds on disposal of fixed assets (net of mortgage loan)	73,291	28,155
Capital assistance loan (note 5)	79,925	—
Repayment of mortgage loan	<u>500</u>	<u>—</u>
	<u>912,477</u>	<u>501,451</u>
 APPLICATION OF FUNDS		
Additions to fixed assets	473,890	337,759
Repayment of long-term debt	35,295	25,000
Dividends —		
Preference shares	14,884	15,270
Common shares	35,002	—
Purchase of preference shares for cancellation	<u>14,096</u>	<u>4,992</u>
	<u>573,167</u>	<u>383,021</u>
 Increase in working capital	339,310	118,430
Working capital at the beginning of the year	<u>663,703</u>	<u>545,273</u>
Working capital at the end of the year	<u>1,003,013</u>	<u>663,703</u>

Atlas Engineering and Machine Co., Toronto
 Atomic Energy of Canada, Toronto
 Bayly Engineering Ltd., Ajax
 Bowmar (Canada) Ltd., Ottawa
 Canadian Arsenals Ltd., Ottawa
 Canadian Aviation Electronics Ltd., Montreal
 Canadian General Electric Co. Ltd., Toronto
 Canadian Westinghouse Co. Ltd., Hamilton
 Collins Radio Company of Canada Ltd., Toronto
 Computing Devices of Canada Ltd., Ottawa
 De Havilland Aircraft of Canada Ltd., Toronto
 Garret Manufacturing Ltd., Toronto
 General Electric Co., Utica, New York
 ITT Gillifillan Incorporated, Los Angeles, California
 Government of Canada
 Canadian Commercial Corporation, Ottawa
 Department of Defense Production, Ottawa
 Honeywell Controls Ltd., Toronto
 Leigh Instruments, Ottawa
 Litton Systems (Canada) Ltd., Toronto
 Litton Systems Incorporated, Los Angeles, California
 Lucas-Rotax Ltd., Montreal
 Muirhead Instruments Ltd., Stratford
 Northern Electric Co. Ltd., Brampton
 Orenda Engines Ltd., Toronto
 Sperry Gyroscope Ltd., Ottawa
 Varrian Associates of Canada Ltd., Georgetown
 York Gears Ltd., Toronto

magna electronics New Plant Facilities, October 1966





directors:

J. E. WARRINGTON — President

H. T. PAWSON, — Vice-President and Manager of Magna Electronics Division

H. WARRINGTON — Secretary-Treasurer and Manager of Verral Metal Fabricators Division

WALTER M. BOWEN — Solicitor, Partner

Blaney, Pasternak, Smela, Eagleson & Watson — Toronto

J. O. McCUTCHEON — Chairman and Professor — Department of Civil Engineering
McGill University

ADAM HARTLEY ZIMMERMAN — Vice-President — Comptroller
Noranda Mines Limited

officers:

J. E. WARRINGTON — President

H. T. PAWSON — Vice-President

H. WARRINGTON — Secretary-Treasurer

auditors:

McDONALD, CURRIE & CO. — Toronto

solicitors:

BLANEY, PASTERNAK, SMELA, EAGLESON & WATSON — Toronto

fiscal agents:

COCHRAN, MURRAY & CO. LIMITED — Toronto, Montreal,
Hamilton, Kitchener, London

registrars and transfer agents:

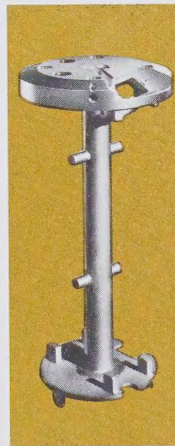
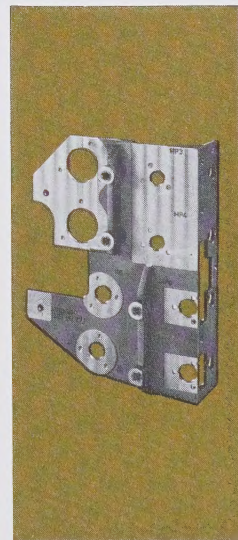
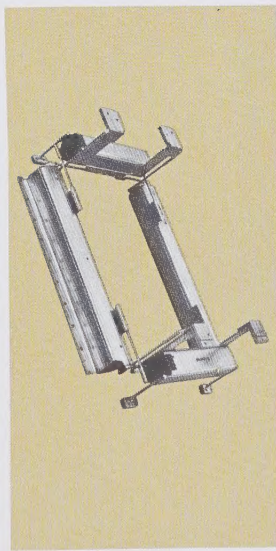
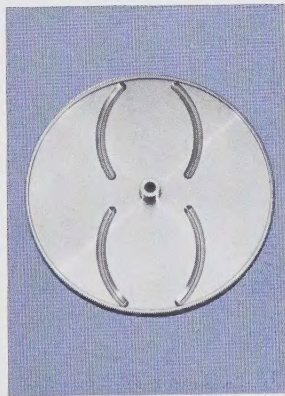
The CANADA TRUST COMPANY — Toronto

trustees for first mortgage bonds:

The METROPOLITAN TRUST COMPANY — Toronto

bankers:

ROYAL BANK OF CANADA — Toronto



Mailing Address:
Magna Electronics Corporation Limited
1480 Birchmount Road
Scarborough, Ontario

divisions

Magna Electronics
1480 Birchmount Road
Scarborough, Ontario

Verral Metal Fabricators
22 Howden Road
Scarborough, Ontario

Progressive Anodizers
41 Crockford Boulevard
Scarborough, Ontario

Qualified Precision Finishers
41 Crockford Boulevard
Scarborough, Ontario



magna electronics corporation limited

Specialists in Precision Components for the Electronics and Aircraft Industry